



Your goal:

Getting ready to retire

The Hanford Site Savings Plans

Vanguard Financial Education Series®

THE **Vanguard** GROUP®

Today's agenda

1. **Getting ready for retirement.**
2. **Catching up on savings.**
3. **Retirement rescue.**
4. **Investing for retirement.**
5. **Your glide path to retirement.**
6. **Applying what you've learned.**

What do you want to do?

- **How will you spend your time?**
- **Who will you spend your time with?**
- **Where do you want to live?**



Interest	Old or new?	Next step
1.		
2.		
3.		
4.		
5.		
6.		

Will you have enough money?

- **How much are you spending today?**
- **How will your expenses change in retirement?**
- **Where will the money come from?**
- **How long will your money last?**

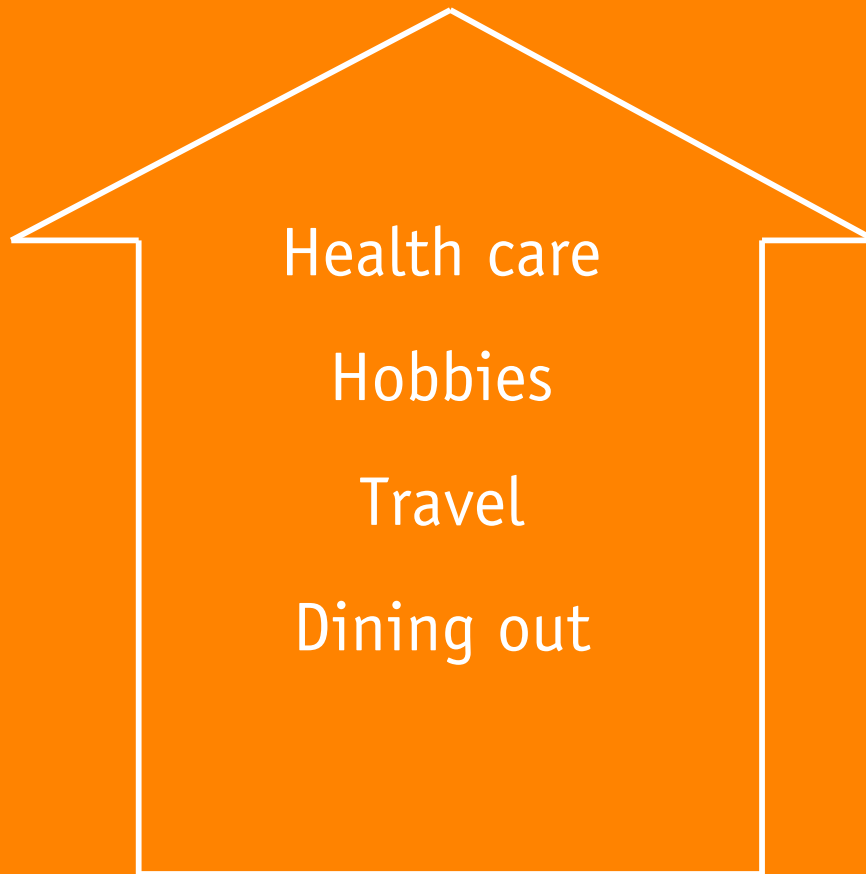
How much are you spending today?

Monthly expenses

		Current expenses	Change + or -	Retirement expenses
Savings	Emergency savings			
	Retirement savings			
	College savings			
	Contingency savings			
	Other savings			
	1. Total Savings			
Housing	Mortgage/rent			
	Real estate taxes*			
	Other			
	2. Total housing expenses			

*Do not include if these expenses are part of your mortgage payments.

How will your expenses change in retirement?



Workbook reference: page 4

Where will the money come from?

- **Employer plans.**
- **IRAs and other personal savings.**
- **Social Security.**

What will Social Security pay you?

- **Reduced benefits as early as age 62.**
- **Full benefits at full retirement age.**
- **Enhanced benefits up to age 70.**





x worksheet

Case Study: Jim and Maggie

Workbook reference: page 9

What will your retirement cost?

	Jim & Maggie	You
1a. Current cost of living.		

What will your retirement cost?

	Jim & Maggie	You
1a. Current cost of living.	\$48,500	

What will your retirement cost?

	Jim & Maggie	You
1a. Current cost of living.	\$48,500	
1b. Estimated changes in retirement.		-\$7,960

What will your retirement cost?

	Jim & Maggie	You
1a. Current cost of living.	\$48,500	
1b. Estimated changes in retirement.	-\$7,960	
1c. Estimated first-year retirement expenses in today's dollars (line 1a minus line 1b).		\$40,540

Table A: Factoring in Inflation

Years until retirement	inflation factors
1	1.04
2	1.08
3	1.12
4	1.17
5	1.22
6	1.27
7	1.32
8	1.37

Years until retirement	inflation factors
9	1.42
10	1.48
11	1.54
12	1.60
13	1.67
14	1.73
15	1.80

Assumes 4% rate of inflation.

Workbook reference: page 10

What will your retirement cost?

	Jim & Maggie	You
1a. Current cost of living.	\$48,500	
1b. Estimated changes in retirement.	-\$7,960	
1c. Estimated first-year retirement expenses in today's dollars (line 1a minus line 1b).	\$40,540	
2. Inflation adjustment from Table A.		1.48

What will your retirement cost?

	Jim & Maggie	You
1a. Current cost of living.	\$48,500	
1b. Estimated changes in retirement.	-\$7,960	
1c. Estimated first-year retirement expenses in today's dollars (line 1a minus line 1b).	\$40,540	
2. Inflation adjustment from Table A.	1.48	
3. First-year retirement expenses adjusted for inflation (line 1c x line 2).		\$60,000

Determine your retirement income

		Jim & Maggie	You
4.	Estimated annual Social Security benefits.	\$18,500	\$

Determine your retirement income

		Jim & Maggie	You
4.	Estimated annual Social Security benefits.	\$18,500	\$
5.	Estimated annual pension benefits.		\$10,000

Determine your retirement income

		Jim & Maggie	You
4.	Estimated annual Social Security benefits.	\$18,500	\$
5.	Estimated annual pension benefits.	\$10,000	\$
6.	Estimated loss of purchasing power on pension benefits.	40%	

Determine your retirement income

	Jim & Maggie	You
4. Estimated annual Social Security benefits.	\$18,500	\$
5. Estimated annual pension benefits.	\$10,000	\$
6. Estimated loss of purchasing power on pension benefits.	40%	%
7. Estimated loss of purchasing power (line 5 x 6).		\$4,000

Determine your retirement income

	Jim & Maggie	You
4. Estimated annual Social Security benefits.	\$18,500	\$
5. Estimated annual pension benefits.	\$10,000	\$
6. Estimated loss of purchasing power on pension benefits.	40%	%
7. Estimated loss of purchasing power (line 5 x 6).	\$4,000	\$
8. Total benefits (add lines 4 and 5 and subtract line 7).	\$24,500	

Surplus or shortfall?

		Jim & Maggie	You
9.	Total benefits in retirement (same as line 8).	\$24,500	\$

Surplus or shortfall?

	Jim & Maggie	You
9. Total benefits in retirement (same as line 8).	\$24,500	\$
10. Estimated expenses in retirement (same as line 3).		\$60,000

Surplus or shortfall?

	Jim & Maggie	You
9. Total benefits in retirement (same as line 8).	\$24,500	\$
10. Estimated expenses in retirement (same as line 3).	\$60,000	\$
11. Surplus or shortfall (subtract line 10 from 9).		-\$35,500

The future value of your savings

	Jim & Maggie	You
12. Total current savings for retirement.	\$150,000	\$

Annual return assumptions

Annual investment returns

Type of investment	Reasonable assumption for worksheet
Short-term reserves	4%–5%
Bonds	5%–7%
Stocks	7%–10%

Table B: savings growth factors

Years until retirement	Assumed rate of return			
	4%	6%	8%	10%
1	1.04	1.06	1.08	1.10
2	1.08	1.12	1.17	1.21
3	1.12	1.19	1.26	1.33
4	1.17	1.26	1.36	1.46
5	1.22	1.34	1.47	1.61
6	1.27	1.42	1.59	1.77
7	1.32	1.50	1.71	1.95
8	1.37	1.59	1.85	2.14

Years until retirement	Assumed rate of return			
	4%	6%	8%	10%
9	1.42	1.69	2.00	2.36
10	1.48	1.79	2.16	2.59
11	1.54	1.90	2.33	2.85
12	1.60	2.01	2.52	3.14
13	1.67	2.13	2.72	3.45
14	1.73	2.26	2.94	3.80
15	1.80	2.40	3.17	4.18

Workbook reference: page 13

The future value of your savings

	Jim & Maggie	You
12. Total current savings for retirement.	\$150,000	\$
13. Current savings growth factor (Table B).		2.16

The future value of your savings

	Jim & Maggie	You
12. Total current savings for retirement.	\$150,000	\$
13. Current savings growth factor (Table B).	2.16	
14. Future value of current savings at retirement (line 12 x line 13).		\$324,000

The future value of your savings

	Jim & Maggie	You
12. Total current savings for retirement.	\$150,000	\$
13. Current savings growth factor (Table B).	2.16	
14. Future value of current savings at retirement (line 12 x line 13).	\$324,000	\$
15. Annual contributions to retirement plans.		\$4,000

Table C: Contributions Growth Factors (line 16)

Years until retirement	Assumed rate of return			
	4%	6%	8%	10%
1	1.00	1.00	1.00	1.00
2	2.04	2.06	2.08	2.10
3	3.12	3.18	3.25	3.31
4	4.25	4.38	4.51	4.64
5	5.42	5.64	5.87	6.11
6	6.63	6.98	7.34	7.72
7	7.90	8.39	8.92	9.49
8	9.21	9.90	10.64	11.44

Years until retirement	Assumed rate of return			
	4%	6%	8%	10%
9	10.58	11.49	12.49	13.58
10	12.01	13.18	14.49	15.94
11	13.49	14.97	16.65	18.53
12	15.03	16.87	18.98	21.38
13	16.63	18.88	21.50	24.52
14	18.29	21.05	24.22	27.98
15	20.02	23.28	27.15	31.77

Workbook reference: page 13

The future value of your savings

	Jim & Maggie	You
12. Total current savings for retirement.	\$150,000	\$
13. Current savings growth factor (Table B).	2.16	
14. Future value of current savings at retirement (line 12 x line 13).	\$324,000	\$
15. Annual contributions to retirement plans.	\$4,000	\$
16. Annual contributions growth factor (Table C).		14.49

The future value of your savings

	Jim & Maggie	You
12. Total current savings for retirement.	\$150,000	\$
13. Current savings growth factor (Table B).	2.16	
14. Future value of current savings at retirement (line 12 x line 13).	\$324,000	\$
15. Annual contributions to retirement plans.	\$4,000	\$
16. Annual contributions growth factor (Table C).	14.49	
17. Value of current contributions at retirement (line 15 x line 16).		\$57,960

The future value of your savings

	Jim & Maggie	You
12. Total current savings for retirement.	\$150,000	\$
13. Current savings growth factor (Table B).	2.16	
14. Future value of current savings at retirement (line 12 x line 13).	\$324,000	\$
15. Annual contributions to retirement plans.	\$4,000	\$
16. Annual contributions growth factor (Table C).	14.49	
17. Value of current contributions at retirement (line 15 x line 16).	\$57,960	\$
18. Estimated value of total savings at retirement (line 14 + line 17).	\$381,960	

Savings withdrawal rate

	Jim & Maggie	You
19. Savings shortfall (same as line 11).	\$35,500	\$

Savings withdrawal rate

	Jim & Maggie	You
19. Savings shortfall (same as line 11).	\$35,500	\$
20. Estimated value of total savings at retirement (same as line 18).	\$381,960	

Savings withdrawal rate

	Jim & Maggie	You
19. Savings shortfall (same as line 11).	\$35,500	\$
20. Estimated value of total savings at retirement (same as line 18).	\$381,960	\$
21. Divide line 19 by line 20 and enter the result.	0.0929	

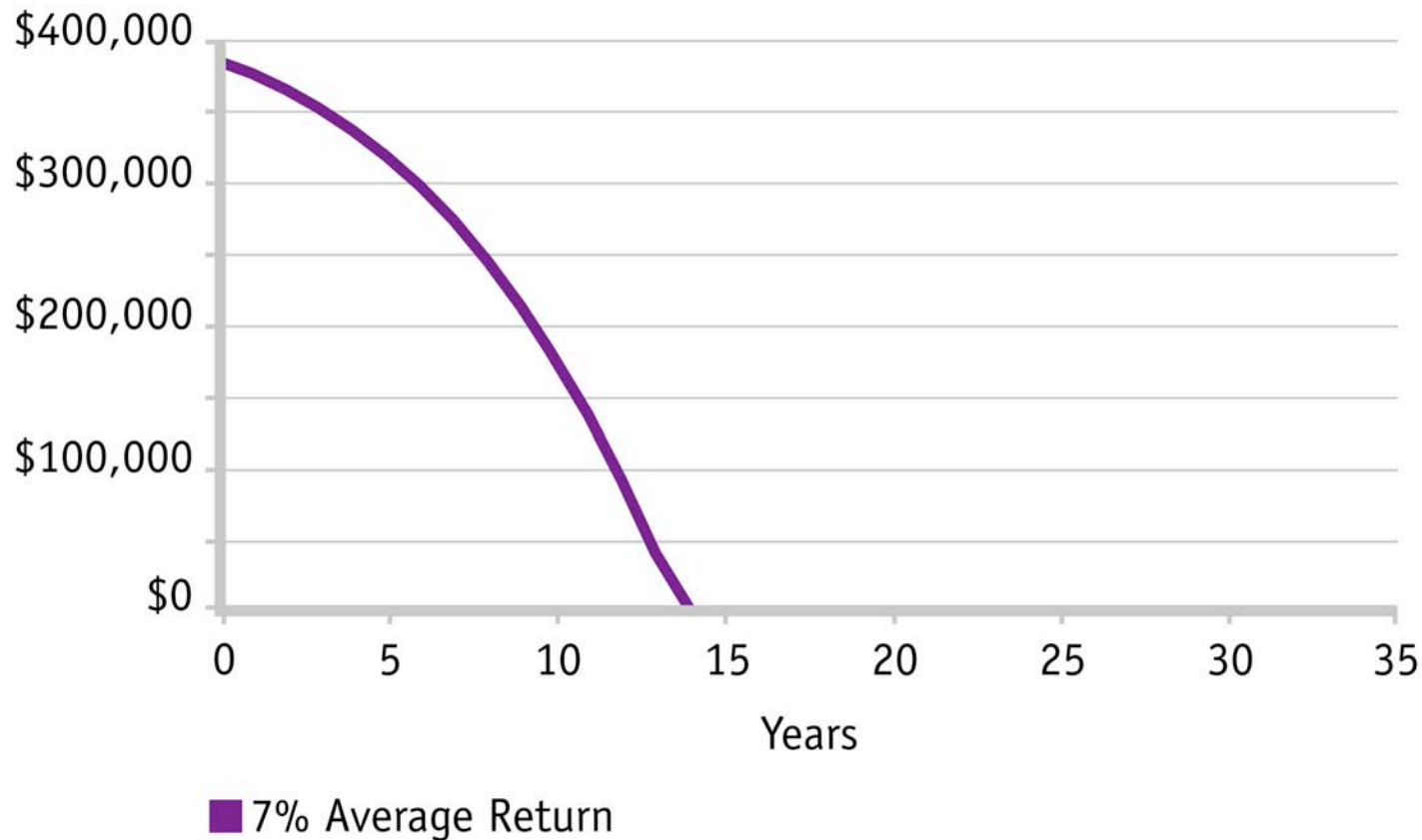
Savings withdrawal rate

	Jim & Maggie	You
19. Savings shortfall (same as line 11).	\$35,500	\$
20. Estimated value of total savings at retirement (same as line 18).	\$381,960	\$
21. Divide line 19 by line 20 and enter the result.	0.0929	
22. Multiply line 21 by 100 and enter the result in line 23.		x 100

Savings withdrawal rate

	Jim & Maggie	You
19. Savings shortfall (same as line 11).	\$35,500	\$
20. Estimated value of total savings at retirement (same as line 18).	\$381,960	\$
21. Divide line 19 by line 20 and enter the result.	0.0929	
22. Multiply line 21 by 100 and enter the result in line 23.	x 100	x 100
23. Anticipated annual withdrawal rate from savings.		9.29%

Jim and Maggie's money runs out



Assumption: 7% average return; 9% withdrawal rate.

Workbook reference: page 15

Sustainable rate of withdrawal

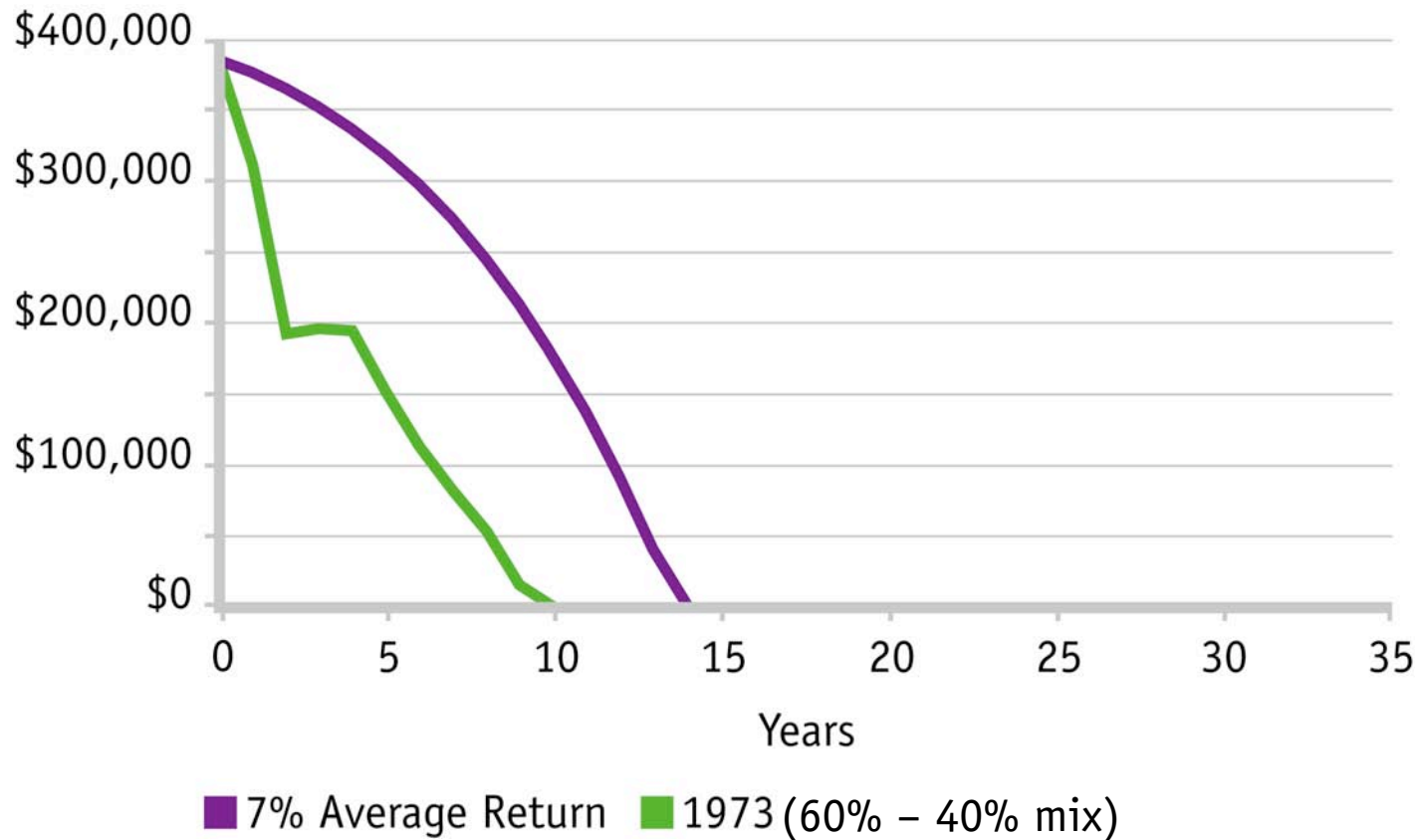
- **Actual vs. average returns.**
- **Sequence of returns.**



What if . . .

- **Jim and Maggie retired in 1973.**
- **Investment mix of 60% stocks and 40% bonds.**
- **Annual withdrawal rate of 9%.**

If Jim and Maggie retired in 1973 . . .



Assumption: 9% withdrawal for both.

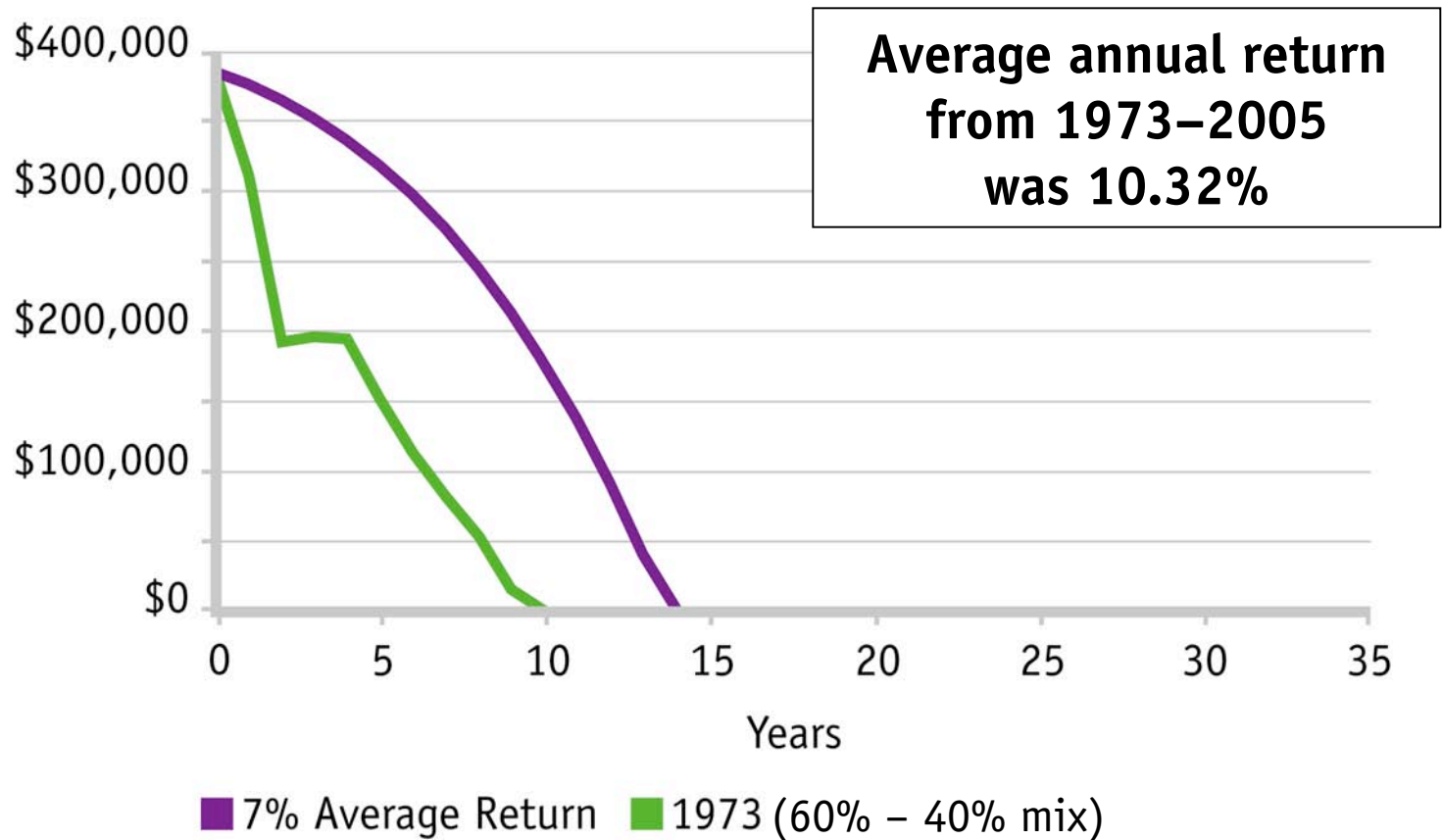
1973—what actually happened?

1973	-10.19	1983	17.27	1994	-1.44
1974	-16.96	1984	7.83	1995	29.57
1975	28.00	1985	28.07	1996	13.89
1976	22.19	1986	15.90	1997	22.68
1977	-0.38	1987	2.29	1998	17.85
1978	6.03	1988	13.80	1999	13.28
1979	16.25	1989	23.20	2000	-1.80
1980	21.42	1990	-0.39	2001	-3.18
1981	0.66	1991	26.97	2002	-8.10
1982	23.67	1992	8.41	2003	20.85
		1993	11.18	2004	9.25
				2005	4.60

Assumption: 60% stocks, 40% bonds.

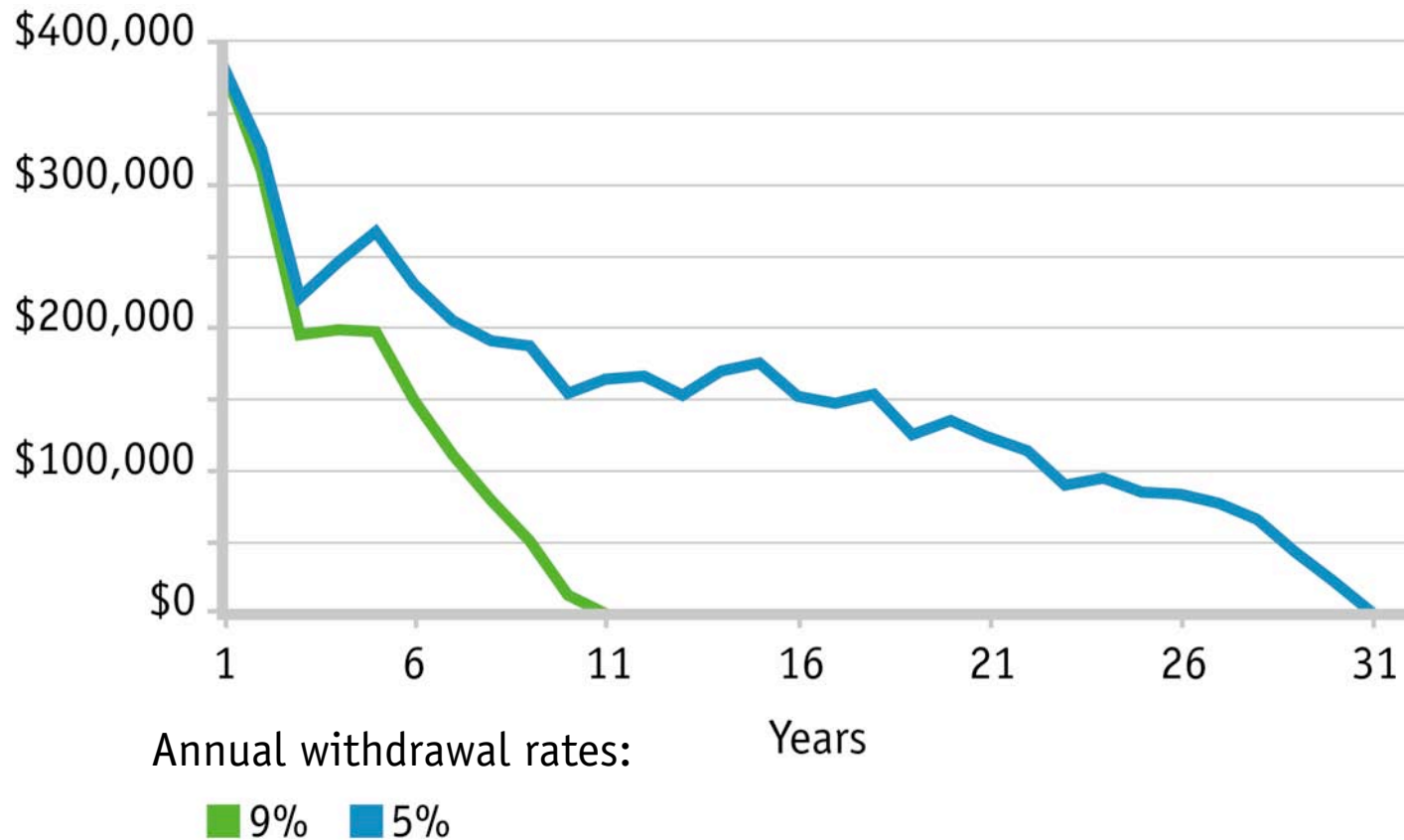
Source: The Vanguard Group.

Average returns are misleading



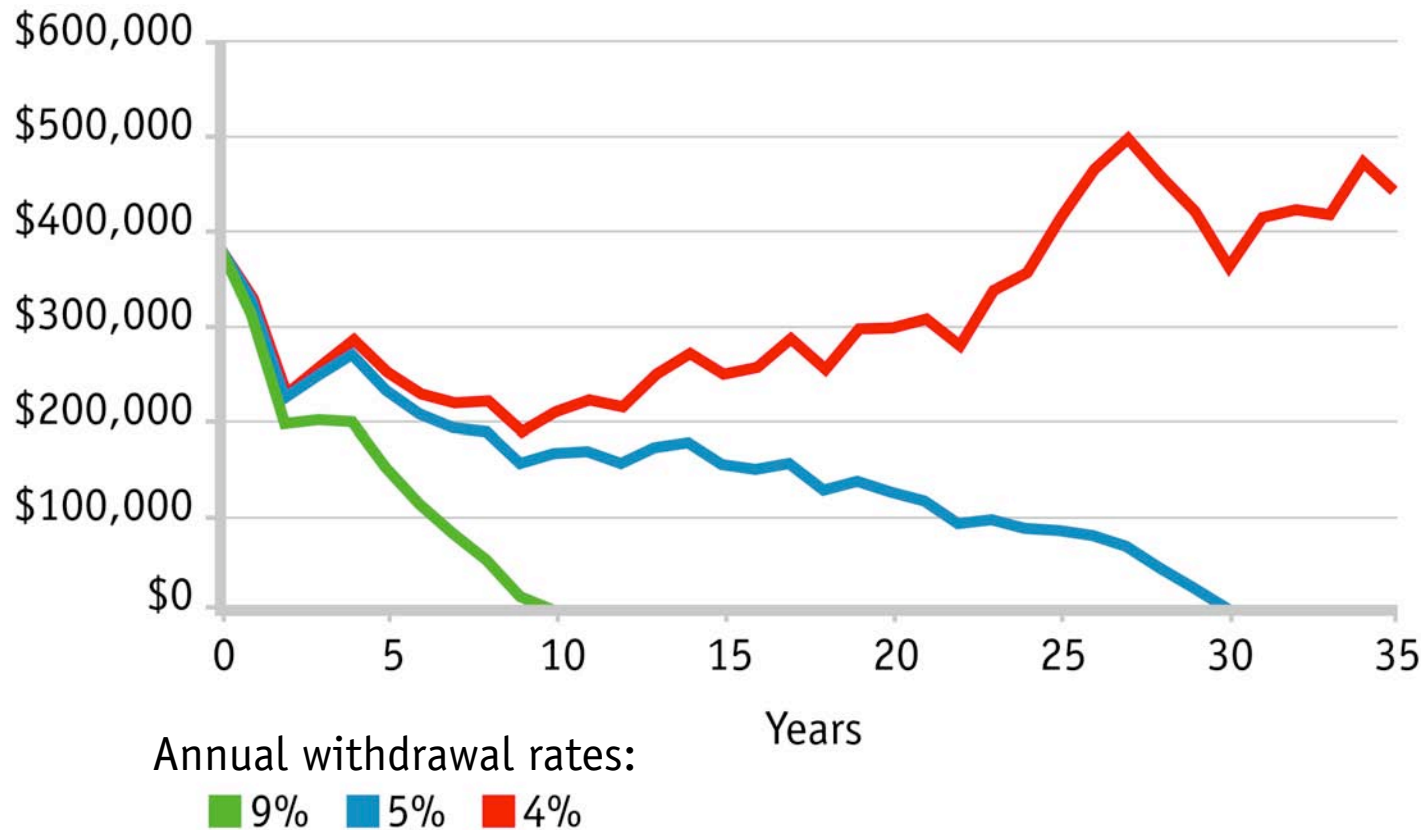
Assumption: 9% withdrawal for both.

What about a 5% withdrawal rate?



Assumptions: 60% stocks, 40% bonds, beginning in 1973.

What about a 4% withdrawal rate?



Assumptions: 60% stocks, 40% bonds, beginning in 1973.

[Workbook reference](#): page 17

Will your savings run out?

	Jim & Maggie	You
24. Do you anticipate withdrawing more than 5% of your savings annually (see line 23)?	<input checked="" type="checkbox"/> yes <input type="checkbox"/> no	<input type="checkbox"/> yes <input type="checkbox"/> no

To finance 25 or more
years of retirement . . .

Limit your annual withdrawals to

3%–4%

of your nest egg.

How to save your retirement

What can you do if you find yourself in a situation similar to Jim and Maggie?



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Start with your employer's plan

- **Plan # 093232, 093233, 093231**
- **Pre-tax contributions up to 50% maximum.**
- **Tax-deferred growth.**
- **Dollar-cost averaging.**
- **Flexibility.**
- **Employer contribution.**
100% on first 3% and 50% on next 2%.

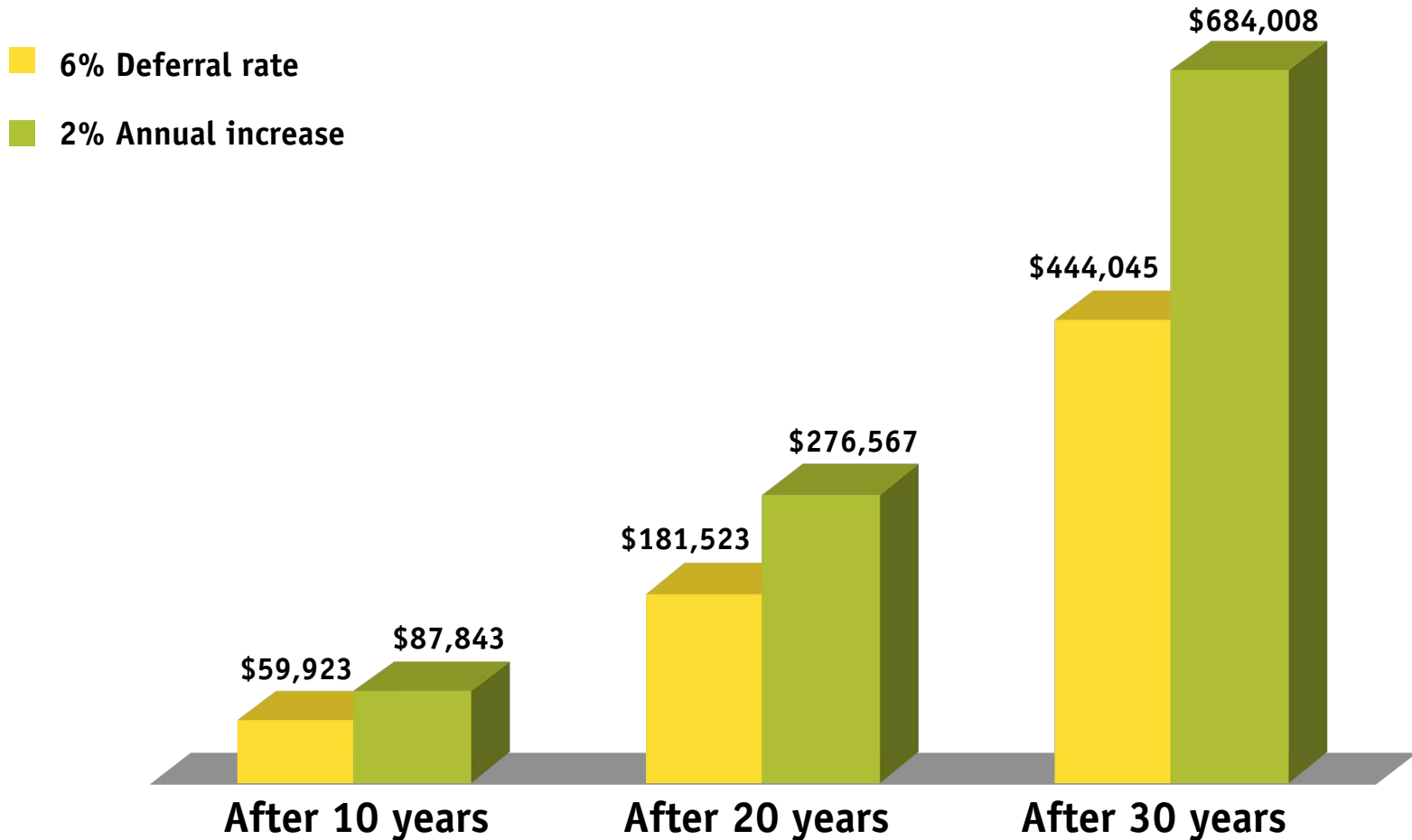
To enroll/increase your contribution

- **Contact:**
 - Vanguard.com[®]
 - Participant Services at 800-523-1188
- **Establish/change:**
 - Deferral percentage.
 - Investment choices.
- **Enroll in Vanguard's One Step[®] program.**

One Step Save™

- **Helps you save more.**
- **Increases your savings rate for you— automatically.**
- **Boosts your rate annually each month in whatever month you choose.**
- **Choose your One Step Save election—from 1% to 5%.**
- **Sign up today:**
 - www.vanguard.com
 - 800-523-1188 to speak with a Vanguard associate.

The difference with One Step Save

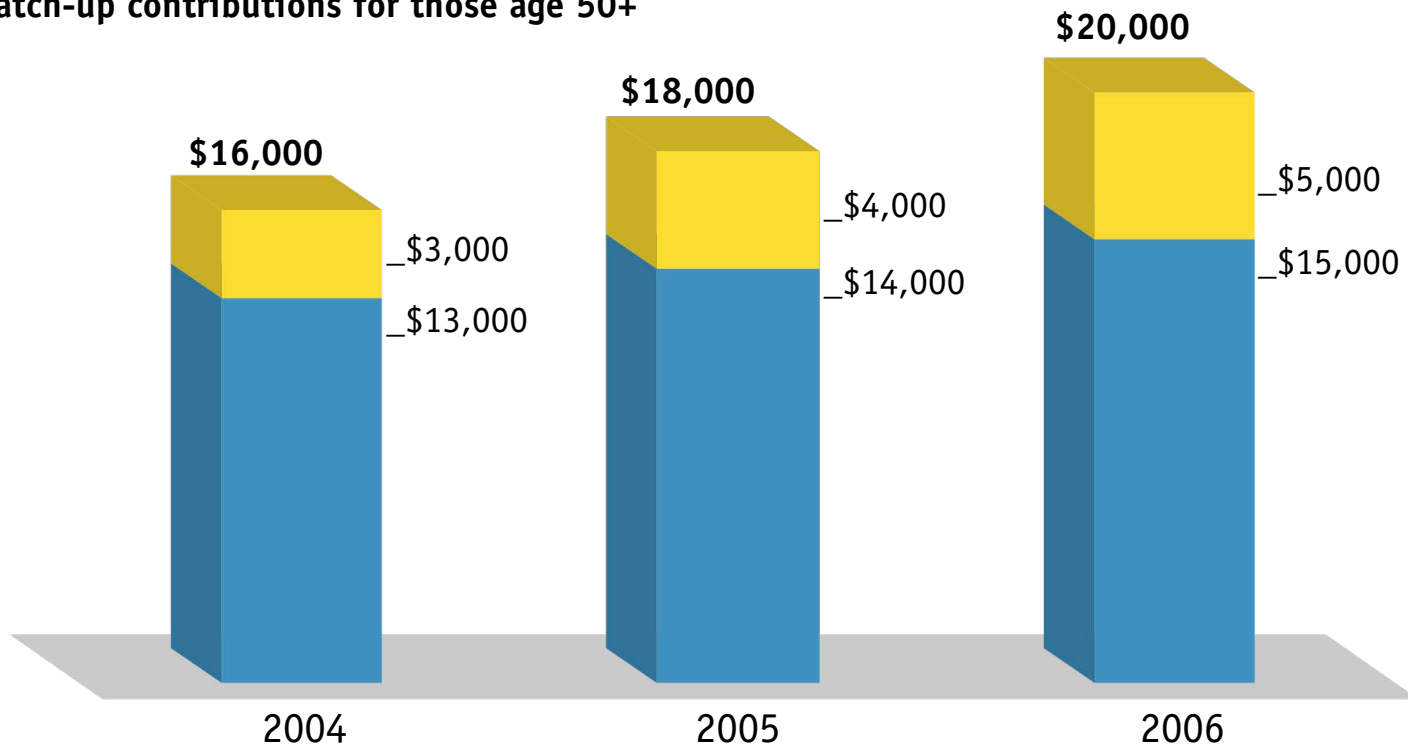


Assumes \$30,000 salary, 8% average annual rate of return, and increasing contributions over 4 years (up to 14%). Includes a 100% matching contribution, up to 6%. This hypothetical illustration does not represent the return on any particular investment.

“Catch-up” in your employer’s plan

■ Maximum contribution for all workers

■ Catch-up contributions for those age 50+



Workbook reference: page 21

Making up for lost time

	Betty	You
1. Annual salary.	\$70,000	\$
2. Salary already received during the year.	\$25,000	\$
3. Remaining pay for year (line 1 - line 2).	\$45,000	\$
4. Maximum you can contribute to the plan without catch-up.	\$15,000	\$15,000
5. Catch-up contribution (if 50 or older).	\$5,000	\$
6. Maximum contribution with catch-up (line 4 + line 5).	\$20,000	\$
7. Amount already contributed to plan this year.	\$6,000	\$
8. Maximum contribution remaining for year (line 6 - line 7).	\$14,000	\$
9. Divide line 8 by line 3. Contribute this percentage to your plan.	31%	%

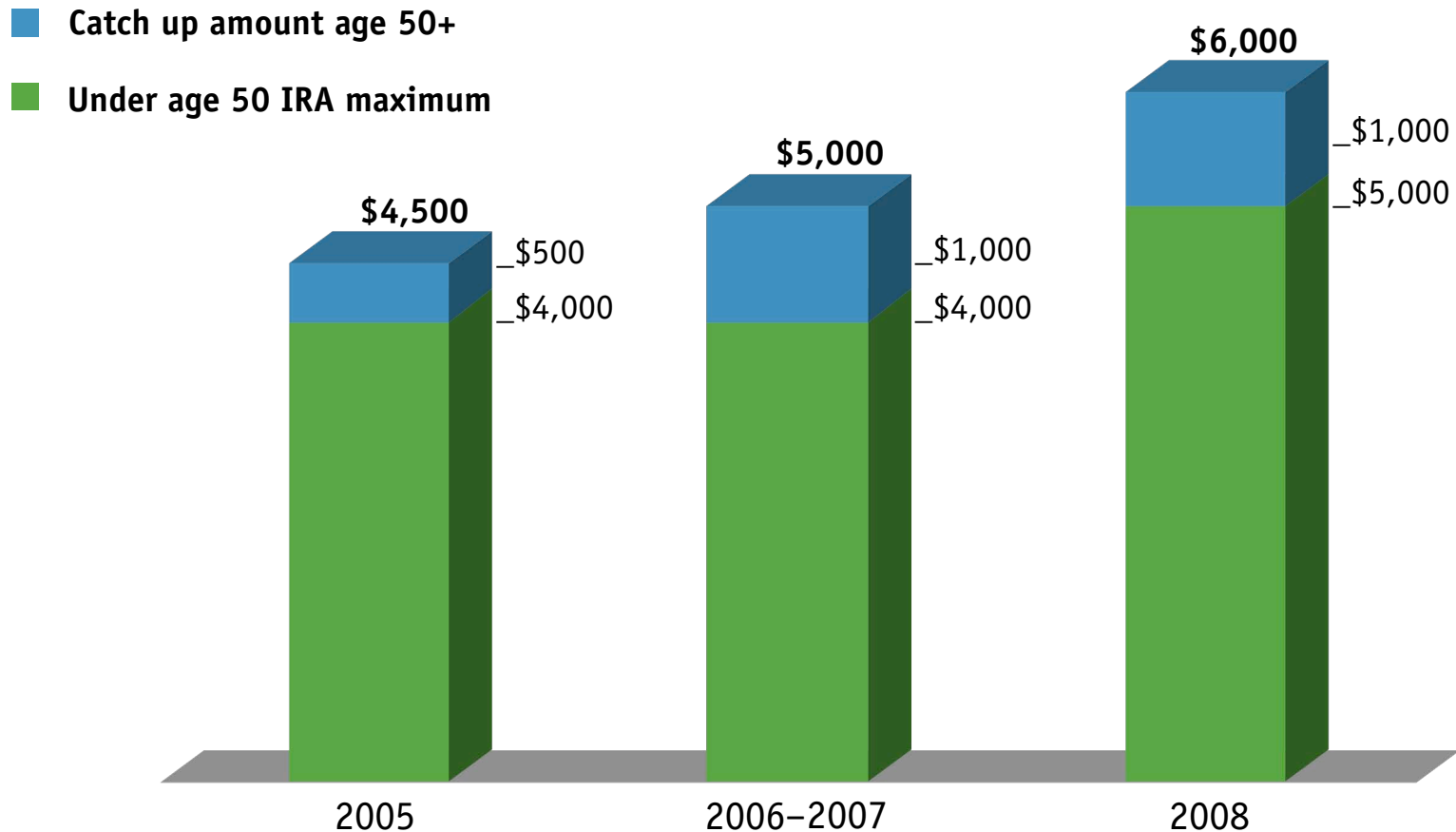
Workbook reference: page 23

The advantages of IRAs

- **Traditional IRAs.**
- **Roth IRAs.**



Increased IRA contribution limits



Workbook reference: page 24

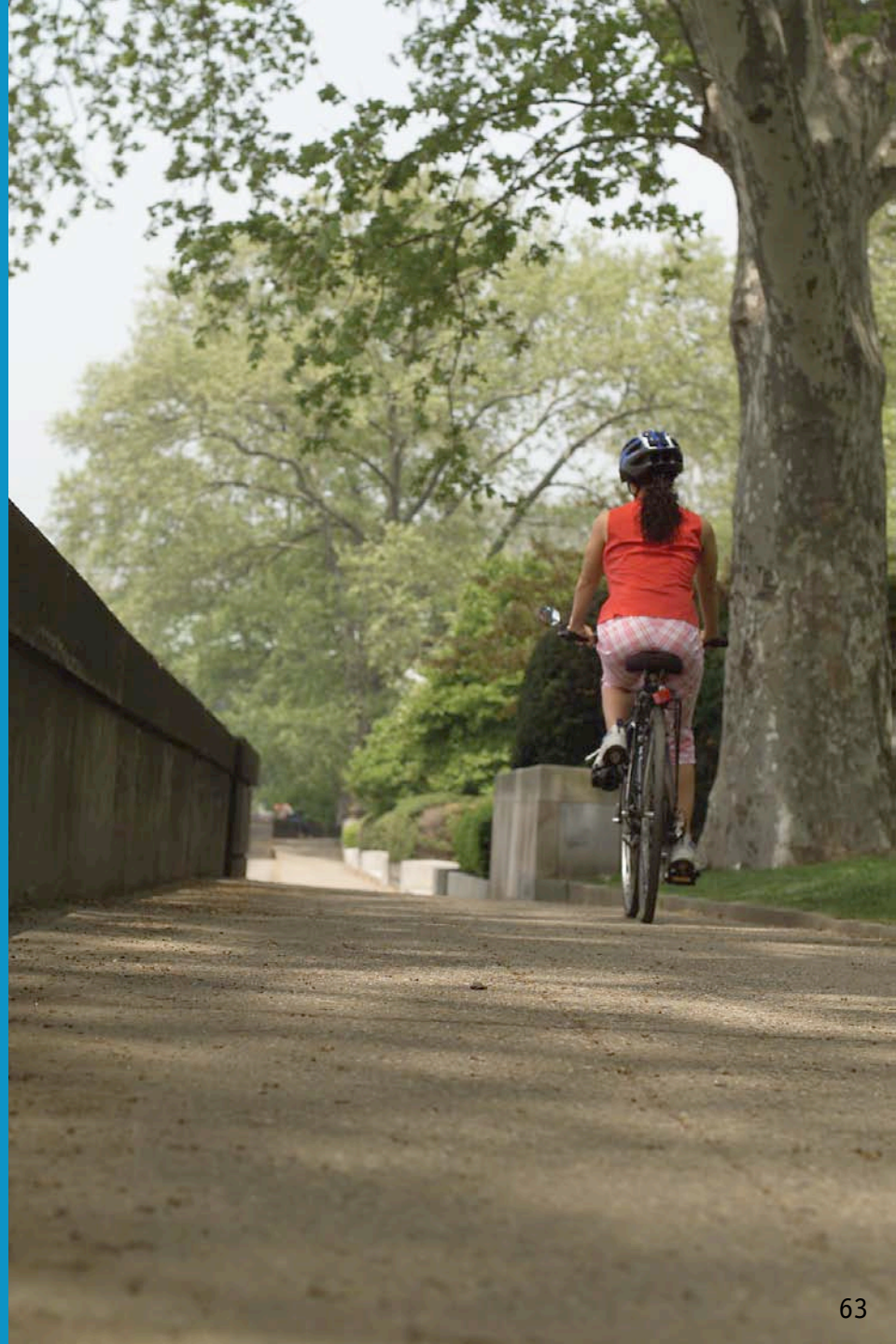
Traditional IRAs

- **Eligibility.**
 - Earned income.
- **Contributions may be deductible.**
 - Participation in employer's plan.
 - AGI limitations.
- **Earnings grow tax-deferred.**

Roth IRAs

- **Eligibility.**
 - AGI limitations.
- **Contributions.**
 - Never tax deductible.
 - Can be withdrawn at any time without tax consequences.
- **Earnings may be tax-free and penalty-free.**
 - Qualifying conditions.

What else can
you do besides
pumping up
your savings?



Today's agenda

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Sell your home

- **Why pay for “extra” space?**
- **“Unlock” some equity.**

The downside?

- **Will you miss your neighborhood?**
- **You gotta live somewhere—moving can be a hassle.**

Workbook reference: page 28

Pursue the “simple life”

- **Been there, done that!**
- **Grow your own food.**

The downside?

- **Is this what you really want?**
- **The simple life involves some sacrifice.**

Work part-time

- **Follow your passion and get paid.**
- **Work provides some structured time.**

The downside?

- **What if your spouse is not working?**
- **Earnings may impact Social Security benefits.**

Work a little longer

- **You can save more.**
- **You'll delay withdrawing from retirement savings.**

The downside?

- **You won't be getting any younger.**
- **You may have fewer years to enjoy yourself.**

Tighten your belt now

- **Get used to living on less.**
- **Invest the savings.**

The downside?

- **A tight belt can be uncomfortable.**
- **Are both spouses on the same page?**

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“I’m playing it safe.
I’m putting all
my money into
CDs and money
market funds.”

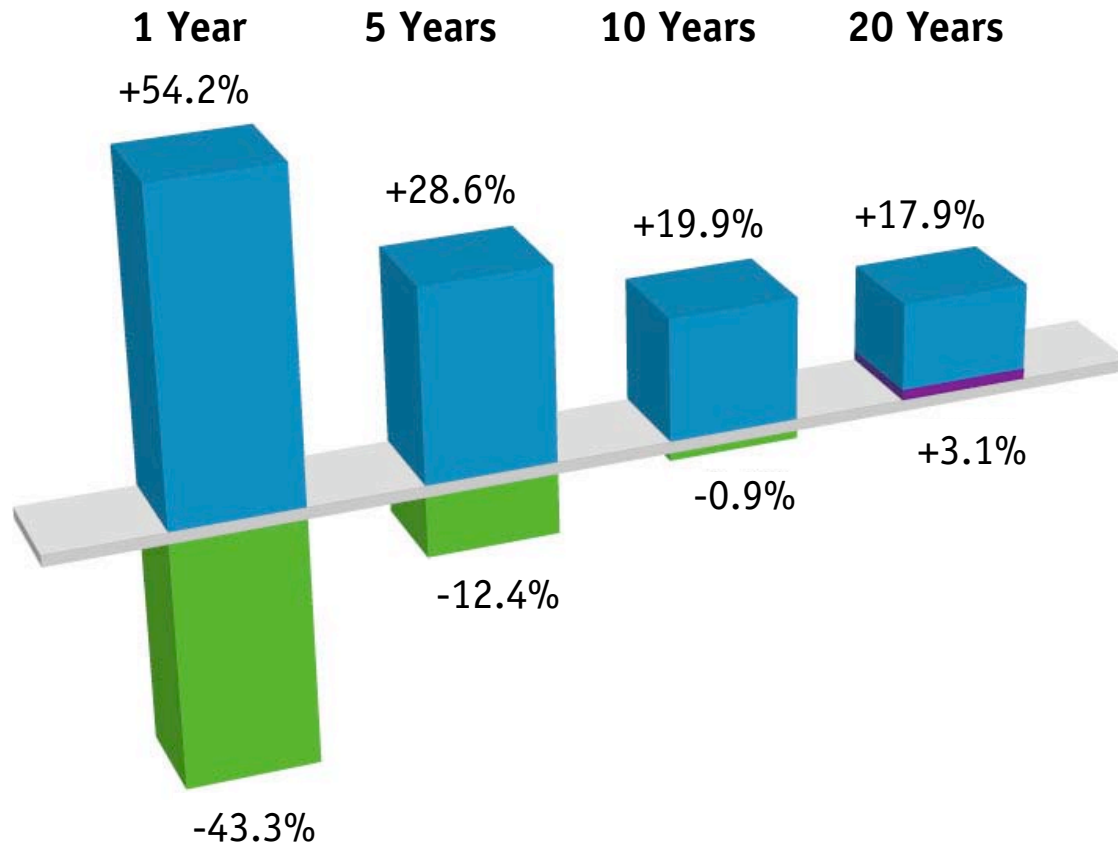


Where should you invest?

- **You need a balance of investments that generates current income and future growth.**
- **If your savings don't grow, you'll lose purchasing power.**

Reduction of risk over time

S&P 500 Index 1926–2005



Source: The Vanguard Group and Standard & Poor's.

Workbook reference: page 39

How do you
know what mix
is right for you?



Two paths to invest for retirement

One decision:

- Select your retirement date.
- Select your fund.
- Managed by Vanguard.

Self-directed:

- Complete the Investor Questionnaire.
- Choose your investment mix.
- Select your funds.
- Monitor your investment mix.

One decision

Current age	Suggested fund	Investment mix*
18–23	Vanguard Target Retirement 2050 Fund	 10% 90%
24–28	Vanguard Target Retirement 2045 Fund	 10% 90%
29–33	Vanguard Target Retirement 2040 Fund	 10% 90%
34–38	Vanguard Target Retirement 2035 Fund	 10% 90%
39–43	Vanguard Target Retirement 2030 Fund	 10% 90%

Stocks
 Bonds
 Short-term reserves

More aggressive

Less aggressive

*Approximate allocation targets for each fund for 2006. Allocations for date-specific funds will shift over time, based on an assumed retirement age of 65.

One decision

Current age	Suggested fund	Investment mix*
44–48	Vanguard Target Retirement 2025 Fund	 17.5% 82.5%
49–53	Vanguard Target Retirement 2020 Fund	 25% 75%
54–58	Vanguard Target Retirement 2015 Fund	 33.3% 66.7%
59–63	Vanguard Target Retirement 2010 Fund	 40% 60%
64–69	Vanguard Target Retirement 2005 Fund	 50% 50%
70+	Vanguard Target Retirement Income Fund	 5% 30% 65%

■ Stocks
 ■ Bonds
 ■ Short-term reserves

*Approximate allocation targets for each fund for 2006. Allocations for date-specific funds will shift over time, based on an assumed retirement age of 65.

More aggressive

Less aggressive

X worksheet

Investor Questionnaire

Investor Questionnaire

This questionnaire is designed to provide an asset allocation that may be appropriate for you. By using this investment planning tool, you acknowledge that you have read and understood the information provided, and that you agree to the Terms and Conditions of Use found on the enclosed insert.

Instructions: Answer these questions with one specific financial goal in mind, such as retirement. Don't use this questionnaire for goals that require you to spend all of your money for the goal within the next two years. Savings for short-term objectives should be invested in stable investments—primarily short-term reserves.

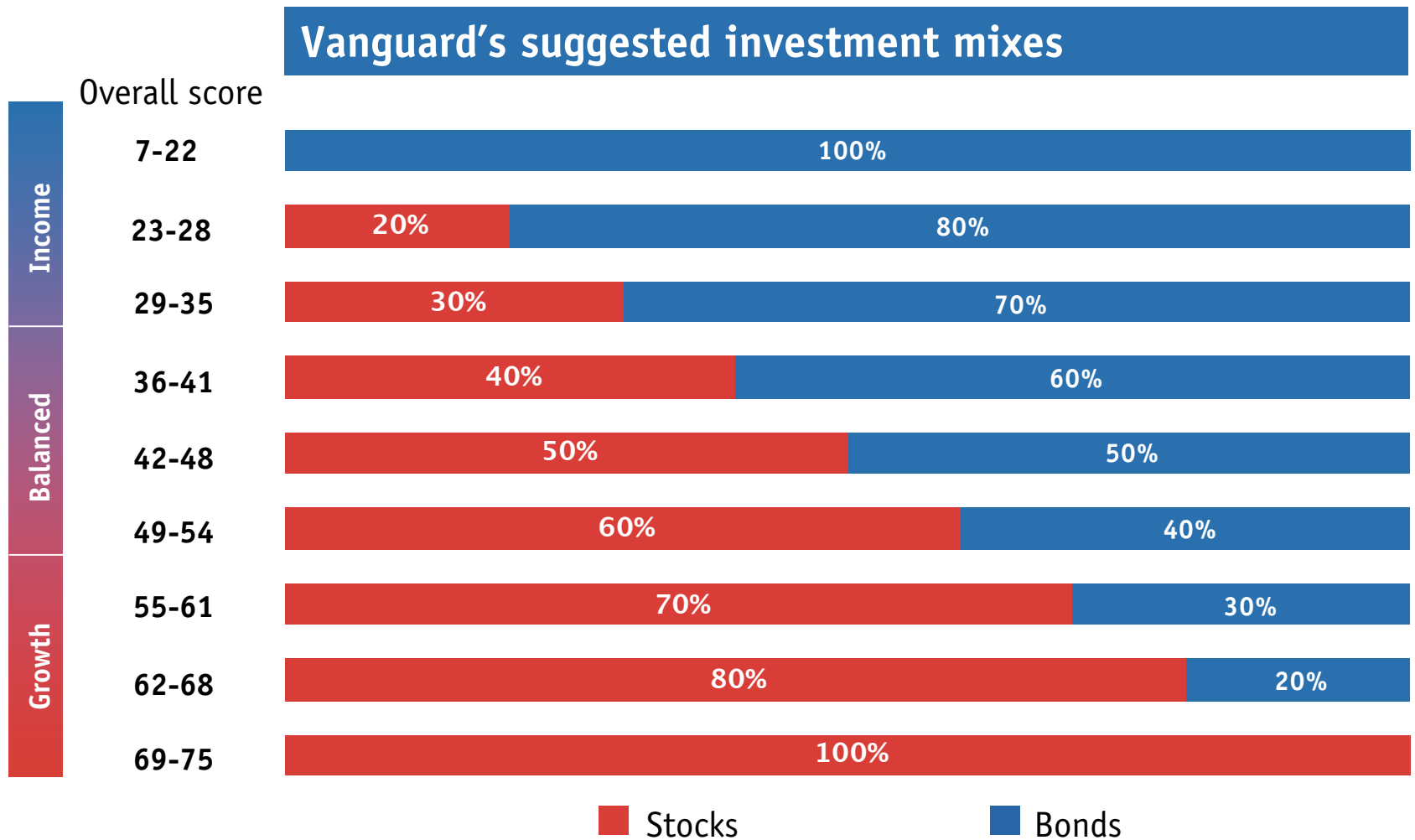
To determine your investment approach for other goals, fill out the questionnaire as many times as you like, with a different goal in mind each time.

1. I plan to begin taking money from my investments in . . .

- ☐ A. 1 year or less
- ☐ B. 1–2 years
- ☐ C. 3–5 years
- ☐ D. 6–10 years
- ☐ E. 11–15 years
- ☐ F. More than 15 years

2. As I withdraw money from these investments, I plan to spend it over a period of . . .

Investment mix matters



Model portfolios

1926–2005

	Your asset allocation	Average annual return	Number of years with a loss	Average loss
Income	100% bonds	5.8%	16 of 80	-3.5%
	20% stocks 80% bonds	7.0%	13 of 80	-3.4%
	30% stocks 70% bonds	7.6%	15 of 80	-4.2%
Balanced	40% stocks 60% bonds	8.1%	16 of 80	-4.7%
	50% stocks 50% bonds	8.6%	18 of 80	-6.0%
	60% stocks 40% bonds	9.0%	20 of 80	-7.0%
Growth	70% stocks 30% bonds	9.4%	21 of 80	-8.0%
	80% stocks 20% bonds	9.8%	22 of 80	-9.7%
	100% stocks	10.3%	23 of 80	-12.6%

Target asset allocation

Short-term reserves	%
Bonds	%
Stocks	%

Actual asset allocation

Short-term reserves	%
Bonds	%
Stocks	%

Check your investment mix annually

- **Shift assets as retirement nears.**
 - Maintain up to two years worth of living expenses in cash accounts.
- **Rebalance if necessary.**
 - Selling winners means “selling high”.
Generate more cash for next year’s income needs.
 - Still need stocks for long-term growth.

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2. Catching up on savings.
3. Retirement rescue.
4. Investing for retirement.
- 5. Your glide path to retirement.**
6. Applying what you've learned.

Getting set for a smooth landing

- **Get a checkup.**
- **Make friends and influence people.**
- **Research your options for taking your retirement assets.**

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Action steps

- **Inventory your interests.**
- **Obtain an estimate of your Social Security benefits.**
- **Complete the Spending Plan Worksheet.**
- **Determine your retirement readiness.**
- **Maximize your investment opportunities.**
- **Get help if you need it.**

Workbook reference: page 54

Where to go for help

- **Books and publications.**
- **Online services.**
- **Financial planning software.**



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Asset Management Services.

Vanguard[®] Brokerage Services.

Putting it all together

- **Shape your retirement vision.**
- **Rescue your retirement if you're off track.**
- **Understand how your investments may change.**
- **Line up your glide path for a smooth landing.**

For more information about any fund, including investment objectives, risks, charges, and expenses, call The Vanguard Group at 800-523-1188 to obtain a prospectus. The prospectus contains this and other important information about the fund. Read and consider the prospectus information carefully before you invest. You can also download Vanguard fund prospectuses at www.vanguard.com.

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